

STATE SOCIALISM

AND THE

NATIONALISATION OF THE LAND

BY THE

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FIFTH THOUSAND.

London :  
MACMILLAN AND CO.  
1883

[Price Twopence]



THE following pages were written as a chapter in the new edition of my *Manual of Political Economy* which has been recently published. They have already appeared as an article in the July number of *Macmillan's Magazine*: but it has been suggested that they might be useful if issued as a pamphlet in a cheap and accessible form.

H. F.

NOVEMBER, 1883.

## STATE SOCIALISM AND THE NATIONALISATION OF THE LAND.

IT has been pointed out that the most characteristic feature in the socialism of the present day is the reliance which it places on the intervention of the State. The most distinguished advocate of this new form of socialism was probably Lassalle; between him and the late Herr Schulze-Delitzsch there was for many years in Germany a keen and active contest. They respectively became the founders of two rival schools of social and industrial reformers, and there was in almost every respect the widest divergence in the ideas propounded by each of these schools. Herr Schulze-Delitzsch gave a most important stimulus to the co-operative movement; and the guiding principle which influenced him was that the people were to rely for their improvement upon self-help. Lassalle, on the other hand, thought that what the people chiefly needed was a greater amount of aid from the State. The movement which he set on foot became embodied in the society known as the International. The International put forward various proposals, nearly all of which involve State intervention. The agency however on which the Internationalists, and the socialists generally of the present day, place by far the greatest reliance is the scheme which is known as the nationalisation of the land and the other instruments of production. As this plan of nationalisation may be regarded as the most important development of State socialism, it will be desirable to consider it before describing other socialistic schemes the adoption of which would involve pecuniary aid from the State. The subject of nationalisation of the land has moreover lately attracted special

attention in consequence of two books which have been recently published on the subject, the one by Mr Wallace<sup>1</sup>, the well-known naturalist, the other by Mr Henry George<sup>2</sup>. It has rarely happened that a book dealing with social and economic questions has been more widely read than Mr George's work. It therefore becomes the more important carefully to examine the proposals there advocated. Although Mr George writes in a style which is often particularly attractive, yet we have frequently found it extremely difficult to arrive at the exact character of his proposals. There seems, however, little room for doubt that if his scheme were carried out, the existing owners of land would obtain no compensation at all, or would receive as compensation an amount which would be only equivalent to a small proportion of the present selling value of their property. It has been suggested that the State would be a gainer if the land were purchased and paid for in the form of terminable annuities. There is, however, no magic in a terminable annuity. It seems to be sometimes forgotten that wealth cannot be created by a mere arrangement of figures. The State would of course gain, if it were decreed that the owners of land should receive annuities equivalent to the existing rent, for a limited number of years. The gain would be precisely the same as if fundholders, instead of having the perpetual annuity they now enjoy, should only be paid interest for a limited period. But the injustice involved would not be less in the one case than in the other. Nothing, in our opinion, can be more unjust than for the State to take possession of land without paying the full market price to its owners. It is sometimes urged in defence of such a course that the land originally belonged to the people, and that the State had no right to alienate national property in order to enrich a few favoured individuals. But the question as to whether or not it was expedient to have so completely relinquished the rights which the State, as representing the nation, originally possessed in the land, appears to us to have no bearing upon the question of appropriating land at the present time without giving adequate com-

<sup>1</sup> *Land Nationalisation, its Necessity and its Aims*, by Alfred Russel Wallace.

<sup>2</sup> *Progress and Poverty*, by Henry George.

pensation to existing owners. Land has changed hands an indefinite number of times since the principle of private property in land was first recognised; and it would consequently be most indefensible if the State were to take possession, either in whole or in part, of the land of the country. In describing the injustice and inexpediency of the suggested schemes of land nationalisation, it must not be supposed that it would be desirable for the State to surrender its proprietary rights in the land in those countries where it still possesses them. In India, for example, almost the whole of the land is owned by the State; the cultivator, instead of paying rent to a private landowner, pays it to the State in the form of a land tax; the land revenue which is thus yielded amounts to about 22,000,000*l.* a year, and represents a sum nearly equivalent to what is raised by all the imperial taxes that are imposed in India. As evidence of the fact that the cultivators would not be necessarily better off if the State had relinquished its proprietary rights in the land, it may be mentioned that by the celebrated permanent settlement of Lord Cornwallis in 1793, over a considerable portion of Bengal the proprietary rights were transferred to the tax-collectors or zemindars for a fixed annual payment. The result has been that with the increase in wealth and population, the cultivators in the permanently settled districts pay, in the form of rent to the zemindars, three or four times as much as the zemindars pay to the Government. A large amount of revenue has consequently been sacrificed for the benefit of a special class, whilst the cultivators' position has been in no way improved; but on the contrary, the injury which has been inflicted on them may in some degree be measured by the amount of the additional taxation which they have to bear, in consequence of a large amount of revenue having been needlessly sacrificed. If the permanent settlement in Bengal had never been effected, the additional revenue which would now be obtained from the land would be sufficient to enable the Government to repeal so burdensome an impost as the duty on salt.

The extent to which it is expedient for a Government to dispose of its proprietary rights in the land, suggests considerations of the utmost importance for many recently.



settled countries, such for instance as Australia. In that country vast tracts of land have been sold by the Government, and when the amount received is used as ordinary revenue the inquiry is at once suggested whether it can be wise to adopt an arrangement which virtually allows capital to be devoted to income. We cannot help thinking that it is unadvisable for a State thus completely to divest itself of the proprietary rights it possesses in the land. Although we believe that too much importance can scarcely be attributed to the economic advantages which result from associating the ownership with the cultivation of the land, yet the industrial stimulus which is given by the feeling of ownership would, we think, still continue in active operation if in such a country as Australia the Government, instead of completely relinquishing its rights in the soil, retained some share of the property in the form of a land tax which, instead of being commuted as it has been in our own country for a fixed money payment, should be equal to some small proportion of the annual value of the land. If, for instance, in Australia the land had been sold with the condition that one-tenth or even one-twentieth of its annual value should be paid in the form of a land tax, no discouragement would have been offered to enterprise, and the revenue which might be yielded as the country advanced in population and wealth would be a valuable national resource, which might be utilised in rendering unnecessary the imposition of many taxes which will otherwise have to be imposed.

It has been thought necessary to make these remarks in order to bring out with distinctness the very different issues which are involved in surrendering proprietary rights which are still possessed by the State, or in resuming possession of those rights when, as in England, they have been long since surrendered. In considering the proposals which are now being brought forward for nationalising the land of England, it will be desirable, in the first place, to endeavour to describe some of the consequences which would result if no compensation, or inadequate compensation, were given to existing owners; and we shall then proceed to discuss the subject on the supposition that full compensation is given, the land being bought by the State at its present market value. As a result of careful in-

quiry, we have come to the conclusion that until the appearance of Mr George's book, almost every one in England who advocated nationalisation, even including the members of such a society as the International, never entertained the idea that the land should be taken without full compensation. In England, perhaps more than in most countries, a respect for the rights of property is widely diffused; and the fact has certainly not been lost sight of by many of the working classes, that if the policy of taking land without compensation were once embarked upon, it is not only the property of the wealthy owner which would be confiscated; the small proprietor who by years of careful thrift and patient toil had acquired a plot of land, he too would be engulfed in this whirlpool of spoliation. It would be impossible to say where this wholesale appropriation would stop. The large landowner and the peasant proprietor would not be its only victims. If the State were to take without compensation all the land of the country, the workman who through the agency of a building society is now able to call his house his own would find himself dispossessed of the land on which it stands. If the nationalisation of the land without compensation is thus flagrantly unjust, it can, we think, be shown that nationalisation with compensation, though not so unjust, would prove incalculably mischievous in its consequences. In the opinion of a well-known statistician, Mr Robert Giffen, the annual rent of the agricultural land in this country is about 66,000,000*l.* Take this at 30 years' purchase, and the amount of compensation required for the agricultural land alone would be 2,000,000,000*l.*, or nearly three times the amount of the National Debt. And when the State had become the possessor of all the land, what is going to be done with it? What principles are to regulate the rents to be charged? Who is to decide the particular plots of land that should be allotted to those who apply for them? If the rent charged is to be determined by the competition of the open market, in what respect would a cultivator be better off if he paid a competition rent to the State instead of to a private individual? and if the market price is not to be charged, who is to bear the loss? from what fund is the deficiency to be made good? There is only one answer to this question; it

must be made good from the general taxation of the country; and increased taxation means still more taken from the hard-won wages of the people. But the subject may further very properly be looked at from another point of view. If the Government owned the land and once began letting it on any other terms than those which regulate the transactions of ordinary commercial life, there would be opened indefinite opportunities for State patronage and favouritism, and the demoralising corruption that would ensue would be more far-reaching and more baneful in its consequences than even the pecuniary loss which the scheme would involve. If land was to be allotted as a matter of patronage, who would have the fertile plots and who would be relegated to those barren soils which, under the most favourable conditions, will scarcely pay for cultivation? It would therefore appear that the nationalisation of the land would inevitably lead to this dilemma:—if the land were let at less than its market price, not only would there be an unlimited field for State patronage with all its attendant corruption and demoralisation, but the difference between the amount at which the land would be let, and its letting value, if a competition rent were charged, would involve an enormous annual deficit that would have to be made good at the expense of the general body of the tax-payers of the country.

It is further to be remarked that this deficit would by no means represent the whole loss that would be involved, because it cannot be doubted that the raising of so large a loan as 2,000,000,000*l.* which, as has been stated, is the estimated value of the agricultural land, would considerably affect the credit of the State. The Government would have to borrow upon less favourable terms; and the more unfavourable were the terms, the greater would be the difference between the amount yielded by the land and the annual interest on the loan, consequently the greater would be the loss which the community would have to bear. If in order to escape from this loss, and to provide a remedy against the difficulty of distributing the land among the various applicants, it should be decided, instead of letting the land at what is termed a fair price, to offer it to be competed for in the open market, the rents that would then be paid would be rack-



rents; and in what better position would the cultivators be, if instead of paying a rack-rent to a private individual they paid at least as high a rent to the State? Instead of the position of the cultivator being improved, he would, in numerous instances, be far worse off than he was before. A private owner can take account of many circumstances which it would be scarcely possible for the State to regard. It not unfrequently happens, for instance, under the present system, that the claims of an old tenant for consideration are not ignored, and there are many landowners who would not think of displacing an old tenant, although it might very likely happen that if the land were put into the market a somewhat higher rent might be obtained. It cannot, we think, be too strongly insisted upon that, in order to provide a security against favouritism and patronage, the State would have to administer its property according to strictly defined rules. If the State owned the land, rent would have to be levied with just the same rigour as an ordinary tax, and thus, so far as the cultivators are concerned, the result of nationalisation would be that they would hold the land under a system of the most rigid rack-renting.

It is sometimes contended that if the land were nationalised the disadvantages, to which reference has just been made, would be counterbalanced by the introduction of an improved system of land tenure. Thus, it is said, if the cultivator rented directly from the State, he would be protected against capricious eviction, and would be secured adequate compensation for any improvements that might be effected in the land through his capital and skill. Nothing is farther from our intention than in any way to underrate the importance of the cultivator enjoying these advantages; but it has been shown by the Irish Land Act of 1881, and by the Tenants' Compensation Bill for England and Scotland which is now before Parliament, that it is possible to confer these advantages on the cultivators without bringing into operation all the evils which, as we believe, would result from nationalisation. The idea which forms the foundation of all these schemes of nationalisation is, that with the advance in the wealth and population of the country the value of land constantly increases, and that the portion of the additional value

which does not result from an application of capital and labour, but is the consequence of the general progress of the nation, is a property belonging rather to the nation than to the individual, and might therefore be fairly appropriated by the State. Practical effect was sought to be given to this idea in the proposal made by Mr J. S. Mill not long before his death, that the State should appropriate what he termed the unearned increment in the value of land. But although this proposal with regard to the "unearned increment" of the land, sanctioned by his high authority, is deserving of most careful consideration, it seems to us that it can neither be defended on grounds of justice nor expediency. If the State appropriated this unearned increment, would it not be bound to give compensation if land became depreciated through no fault of its owner, but in consequence of a change in the general circumstances of the country? Although there is perhaps no reason to suppose that the recent depression in agriculture will be permanent, yet it cannot be denied that in many districts of England there has been a marked decline in the selling value of agricultural land within the last few years. If, therefore, the State in prosperous times appropriates an increase in value, and if in adverse times the falling-off in value has to be borne by the owner, land would at once have a disability attached to it which belongs to no other property. If we purchase a house, a manufactory, or a ship, we take the purchase with its risks of loss and chances of gain; and why with regard to land, and to land alone, should a purchaser have all the risks of loss and none of the chances of gain? If thirty years ago 100,000*l.* had been invested in agricultural land, and if at the same time another 100,000*l.* had been invested in such first-class securities as railway, banking, insurance, water or gas shares, it can scarcely be doubted that if the latter investment had been made with ordinary judgment there would be, at the present time, a very much larger unearned increment of value upon the shares than upon the land. The increase in the value of the shares would have taken place quite independently of any effort or skill on the part of the owner, and therefore, it may be asked, why should this unearned increment remain as private property, if the unearned increment in the value of land is to be appropriated by the State?

We cannot help thinking that such proposals as those we have been considering, either to nationalise the land or to appropriate the unearned increment, would take us with regard to land reform exactly in the opposite direction to that in which we ought to move. If we associate with the ownership of land any disability or disadvantage which does not belong to other kinds of property, a direct discouragement is offered to the investment of capital in the improvement of the soil: whereas what above all things should be striven after is, to promote the free flow of capital to agriculture. At the present time so great is the accumulation of capital in this country that it flows in a broad and continuous stream towards almost every quarter of the world. This takes place at a time when the productiveness of millions of acres of land in this country might be increased by improved cultivation. As the field for the employment of labour on the land extended, wages would be increased, a stimulus would be given to the general industry of the country, and the extra food which would be yielded would bring additional comfort to every humble home.

It therefore appears to us that the chief end to be sought in the reform of land tenure is to free the land from all restrictions which limit the amount of land which is brought into the market. The existing laws of primogeniture, settlement, and entail, combined with a costly system of conveyancing, impede the transfer of land, and thus lessen the opportunities of associating the ownership with the cultivation of the soil. Such an association would, in our opinion, not only offer the best security for efficient agriculture, but would in various other ways be highly advantageous to the entire community. Some idea may be formed of the advantage which may result from uniting the ownership with the cultivation of the soil, if we consider how little chance there would be of manufacturing industry in our country successfully encountering the close competition with which it has now to contend, if in England manufactories generally had to be rented, whereas in other countries they were owned by the manufacturers. It can be at once seen at what a disadvantage English manufacturers would be placed, if every time they wished to introduce new machinery or to carry out other improvements, they had to

calculate whether or not a portion of the resulting profits would not be taken away from them in the form of increased rent. Legislation may give the tenant an important security for his improvements, but we believe it will be found that in all industry no legislation can give the same security as that which is obtained when a man feels that he is applying his capital and labour to increase the value of his own property.

The next scheme of State Socialism to which it will be desirable to direct attention is the construction of railways, canals, and other public works from funds supplied by the Government. Although a demand has sometimes been put forward that public works should be undertaken at the public expense, yet the system has hitherto in this country only been carried out to a very limited extent. Under certain conditions Government loans are advanced to municipalities and other public bodies. The Public Works Loan Commissioners, through whom these loans are made, only make an advance upon adequate security, such as the rates. In India, the Government regularly spends large sums of money on public works; but the motive which prompts this expenditure is not to find work for the unemployed, but it is supposed that the mass of the Indian people not having obtained the same social advancement as those by whom they are governed, it is requisite to construct for them railways, canals, roads and other works which would not be carried out through the private enterprise of the people themselves. Although considerations such as these may justify the Government in extending public works in India, yet experience has shown that even in India the greatest care and watchfulness are required to prevent very serious evils arising. It has often happened that the construction of public works in India has involved the Government of that country in very grave financial difficulties. When the return upon the works is not sufficient to pay the interest on the loans raised for their construction, the deficit has to be made good by an increase in general taxation; and in a country such as India, where the mass of the people are extremely poor and where the resources of taxation are very limited, it is almost impossible to exaggerate the harm that may be done if it becomes necessary to resort to increased taxation.



In France the construction of public works by the Government has been undertaken from motives altogether different from those which prevail in India. The primary object in France is to give additional employment to the labouring classes. It cannot be for a moment supposed that any remunerative public work would not be supplied through private enterprise and private capital. In no country, probably, is there a more general diffusion and greater accumulation of wealth than in France, and the enormous sums which are forthcoming whenever a new loan has to be raised show that it is scarcely possible to place any assignable limits to the amount of capital which the French people are willing to supply whenever they consider that an opportunity is offered of a safe and profitable investment. If therefore any particular public work is not constructed in France through private enterprise, it can be fairly concluded that in the judgment of the French people it does not afford a reasonable prospect of profit. As all experience shows that an industrial work carried out by a Government is not likely to lead to greater economy than if it is constructed through private agency, a work which is not carried out by private enterprise because it is unremunerative, will in all probability be still more unremunerative if it is undertaken by the Government. We are thus again brought face to face with the same difficulty which had to be met when considering the schemes for the nationalisation of the land, and we have to ask on whom would fall the loss which would result? To such an inquiry only one answer can be given: the State, as we have often had occasion to remark, far from having any great store of wealth from which draughts can be freely made without any one being the poorer, has to obtain every shilling it expends from taxation. It cannot moreover be too constantly borne in mind that all taxation takes from the pockets of the people a great deal more than it yields to the State. It is probably a moderate estimate to assume, when account is taken of the expenses of collection and of the hindrance to trade involved in taxation, that if the carrying out of a public works policy led to a deficit of 5,000,000*l.*, the real loss to the community would not be less than 6,000,000*l.*

There is another consideration which demands most



serious attention. The expenditure by the State of large sums upon public works disturbs the natural flow of labour. Great masses of workmen are aggregated in particular districts, and when expenditure begins to slacken they are naturally eager for fresh employment, and the Government, in order to appease political discontent, may not improbably be forced to commit itself to still further outlay. As an instructive warning of the straits to which a Government may be forced if it interferes with the natural development of trade, it may be mentioned that in the Spring of this year there was much distress amongst the workmen of Paris; many of them had been attracted from the country districts by tempting offers of employment which were made during the time when public works on a large scale were carried out in Paris. The demand for work became so persistent that it was seriously proposed to order new furniture for all the Government offices in Paris, not because it was wanted but in order that employment might be found for the distressed cabinet makers. It would be scarcely more unreasonable to engage some one to break all the lamp-posts with the view of giving work to those who would replace them.

Considerations similar to those to which reference has just been made apply to all the schemes that are from time to time brought forward for carrying out various industrial undertakings by State funds instead of by private enterprise. Thus it has often been advocated in the programme of modern Socialists that co-operative institutions should be aided by capital advanced by the State. Whilst placing the highest value upon the extension of co-operation, we believe that no more fatal injury could be inflicted upon the movement than that the founders of co-operative institutions should be accustomed to rely, not upon their own efforts but upon State help. It is particularly worthy of remark that of the many French co-operative institutions which received assistance from the State at the time of the revolution of 1848, not one obtained any permanent success. It is not difficult to explain their failure. Every trade is certain sometimes to have to contend with the reverses of bad times; the surest way of triumphing over these difficulties is to exercise patience, care, and perseverance; and nothing is so likely

to lead to failure as if encouragement is given to a relaxation of effort by the feeling that if fresh funds are required recourse can be had to the coffers of the State. If the credit of any commercial undertaking is good, there is no difficulty in its obtaining an advance of capital from bankers and others, whose special business it is to secure a profitable investment for the large sums placed at their disposal. If the State makes loans in cases where they cannot be obtained from ordinary commercial sources, it is clear that, in the judgment of those best qualified to form an opinion the State is running a risk of loss which may necessitate increased taxation.

Although in England very little support has been given to proposals to assist co-operative institutions by State loans, yet within the last few years other schemes, which we believe may produce consequences very similar to those just described, have received much public favour. In Ireland three-fourths of the purchase money is advanced by the State to enable small farmers to purchase the land they cultivate, and it is evident that an effort will be made to extend the system to England and to Scotland. If the plan is simply considered in its financial aspects, it is at once evident that public funds are used in a manner that may lead to a loss which will have to be borne by the general body of tax-payers. For if the public money which is advanced could be regarded as a safe investment, there would, as previously remarked, be no necessity to have recourse to State assistance. If, moreover, the aid of the State can be evoked to enable small farmers to become the owners of the land they cultivate, it can hardly be doubted that gradually the system of State assistance will have to be extended. The workmen in the towns would not unnaturally think that they should share the advantages of State help; and they might urge that they should receive some assistance to enable them to become the owners of the houses in which they live. Such demands would be most powerfully stimulated if it became necessary to impose additional taxation in consequence of losses that might accrue on advances made by the State; because a feeling would inevitably arise that if the community were fined for the sake of providing advantages for a special class, these advantages should be shared by all

who had to bear the burden. We fear, however, that the financial loss may be by no means the most serious evil resulting from a large extension of the plan of creating small properties in land by means of Government loans. It is at any rate deserving of most careful consideration whether similar results will not follow the scheme of creating peasant properties by State help to those which have been produced by the attempt in a similar manner to foster co-operative institutions. If some hundreds of thousands of small farmers were debtors to the State, it might not improbably happen that, in a period of agricultural depression, they would not encounter their difficulties by increased energy and enterprise, but would be encouraged to seek a remedy in the tortuous courses of political agitation. The State would be represented as a hard taskmaster, mercilessly exacting the uttermost farthing from the suffering and the impoverished; and political support might be given to those who would most deeply pledge themselves to secure a partial remission of the debts that had been incurred.

It seems probable that the scheme of State Socialism which in England, during the next few years, is likely to assume most importance is the erection of improved dwellings for the poor by funds supplied either from imperial or local taxation. It is almost impossible to overstate the evils which result from the overcrowding of a large portion of the population in wretched and unhealthy dwellings. As stated by Mr Bright in his rectorial address at Glasgow (March, 1883), it appears that even in that wealthy city no less than forty-one out of every hundred families live in a single room, and that beyond these forty-one, thirty-seven families out of every hundred live in two rooms<sup>1</sup>.

<sup>1</sup> The deplorable state of things disclosed by these figures is probably in large measure due to the fact that the Scotch, compared with the English, have hitherto made scarcely any effort to provide themselves with better houses through the agency of Building Societies. It is estimated that at the present time there are in the United Kingdom no less than 750,000 members of building societies; and out of this number only 14,000 belong to Scotland and 7,000 to Ireland. No satisfactory explanation can be given of this striking disparity. The difference between England and Scotland is probably in part due to the fact that the system of registration of building societies is less complete in Scotland. But after making due allowance for this circumstance, it

In view of such a state of things no effort should be spared to bring into operation every agency which is calculated to improve the dwellings of the poor. Admitting that there can be no difference of opinion as to the desirability of the object to be attained, the question is at once suggested whether this object is likely to be promoted by erecting dwellings at the public expense. There is a wide distinction to be drawn between the interference of the State on sanitary grounds, and its interference with the object of supplying houses on more favourable terms than those on which they can be provided by private agency. There are strong grounds for concluding that it is expedient for the State to interpose both with the object of preventing unhealthy houses being built, and in prohibiting houses continuing in so bad a sanitary condition that they not only are dangerous to their inmates, but may become centres of disease to the neighbourhood. It can, however, be easily shown that immediately the State steps beyond these limits of interference, and attempts to control the rents that are charged by building houses with public funds, endless difficulties are at once suggested. If the rent asked for houses built by the State or by a municipality is not sufficient to pay the interest on the money expended in building them, the deficiency must be made good either by an increase in imperial or local taxation. Additional imperial taxation must in part ultimately be paid by the poor, and without discussing here the intricate question of the incidence of local rates, it is sufficient to say that rates are in a large part paid by the occupiers of houses. If therefore it became necessary, as the result of a municipality entering into building operations, to increase rates, the inevitable result must be that those who were fortunate enough to be selected as tenants by the municipality would be virtually shifting a portion of the rent which they would otherwise have to pay, from themselves upon the rest of the inhabitants. Not only would this be manifestly unjust, but the very evil which it was sought to cure would in many instances be aggravated. A workman

seems difficult to resist the conclusion that the thrift for which the Scotch are proverbial has unfortunately in too many cases not hitherto assumed the form of providing themselves with good dwellings.



can only afford to spend a certain portion of his wages upon house-rent; suppose the amount spent by one who is earning 30s. a week is, for rent and rates combined, 6s., the rent being 4s. 6d. and the rates 1s. 6d. If his rates are increased by 6d. a week, the amount then remaining to him to spend in rent is reduced from 4s. 6d. to 4s. a week, and the accommodation which he will ultimately obtain will be proportionately diminished.

There is yet another difficulty to be considered. What process of selection is to be adopted by the municipal authorities in deciding who should be the favoured individuals to enjoy the advantage of living partly at the public expense in houses with rents artificially reduced? It is obvious that poverty cannot be made the controlling principle of selection; because, if this were done, a direct and powerful inducement would be held out to improvidence. Nothing could be more disastrous than to make the industrious poor feel that they were taxed in order to provide those who were impoverished by intemperance or improvidence with better and cheaper houses than they could themselves obtain. If no principle of selection were adopted, and if the houses built by the State or by the municipality were let at the highest rent they would fetch, is there any reason to suppose that a State or a municipality would, in such a trade as house building, be able successfully to compete with private enterprise? This being the case, the result would be that although those who lived in the houses built with public funds would be paying competition rents, yet in all probability these rents would not be sufficient to return the interest on the outlay and the expenses of management, and the deficit would have to be made good either by adding to taxation or by an increase in rates.

Probably, however, the most mischievous consequence that would result from the State or a municipality undertaking to supply houses, is the effect it would have in discouraging the efforts which the working classes are now making to provide themselves with houses. There is no fact connected with the social condition of the people more hopeful than the remarkable development of building societies in recent years. It is estimated, as previously stated, that at the present time these societies have no less



than 750,000 members, a large proportion of whom, by the setting aside of small savings, have either become, or are in process of becoming the owners of the houses in which they dwell<sup>1</sup>. There is, we believe, no surer way of drying up this great stream of self-help and self-reliance than to teach the working classes that they should look, not so much to their own efforts as to the State or the municipality to provide them with the house accommodation they may need.

The next scheme of State Socialism to which it is desirable to direct attention is the proposal, which has been sanctioned by the high authority of Prince Bismarck, to create a fund, partly obtained from a special tax levied upon employers, for the purpose of providing insurance against accidents and an allowance during sickness for workmen. It has been sometimes suggested that the scheme is a natural outgrowth of that system of militarism which has assumed its highest development in Germany, and that so severe a strain has been imposed upon the industrial classes by compulsory military service that it is necessary to resort to exceptional measures to relieve it. It would, however, be foreign to our purpose in this place to consider the scheme in other than its economic aspects. With the object of clearly explaining the economic results which may be produced, it will be desirable to assume that the scheme is carried out in the simplest possible manner, and that the money required to give effect to the proposal is in part obtained by a special tax, say of 10 per cent., levied upon the profits of the employers. It will be necessary, in the first place, to consider what will be the effect of this tax, not only upon the employers, but also upon the rest of the community. Three questions are at once suggested:

- (1) Will the tax be really paid by the employers?
- (2) Will the employers be able to compensate them-

<sup>1</sup> It not unfrequently happens that persons join building societies not for the sake of purchasing a house to live in, but simply as an investment. It must however on the other hand be borne in mind that the figures above quoted include only the members of registered building societies. As a large number of societies are not registered it is probably not incorrect to assume that as many as 750,000 persons have acquired or are in process of acquiring possession of the houses in which they live.

selves by a rise in the price of commodities, and thus shift the burden upon the general body of consumers?

(3) Will the employers be able, in consequence of the tax, to reduce wages and thus cause the tax to be really paid by the workmen?

We believe, from the answers to be given to these three questions, it will be clearly shown that the tax will ultimately have to be borne wholly or in large part by the workmen. Suppose that the tax, in the first instance, is paid by the employer, and that his profits are consequently proportionately decreased. This diminution in profits will render it less desirable to embark capital in the industry of the country; because if capital were employed in some other way, such as the purchase of Government loans, or if it were exported for investment abroad, the payment of the tax would be avoided. This lessening of the inducement to apply capital to home industry could have no other result than to diminish the demand for labour; wages would consequently decline, and the tax, though paid by the employers, would really, in large part, be contributed by the labourers.

It can be easily shown that very serious results might ensue if the employers attempted to compensate themselves for the loss inflicted by the tax by a rise in the price of commodities. In every country there is in the great majority of industries a keen and closely contested competition between the home and the foreign producer; if the price of home products is artificially raised, the inevitable result will be at once to place home trade at a disadvantage; business would become less active, profits and wages will both decline, and it may very possibly happen that the loss alike to employers and employed will be considerably greater than the amount of the tax. Even if there were not the competition just supposed, and if it were possible to maintain a rise in prices sufficient to compensate the employer for the tax, the labourers, being by far the most numerous class in the community, would, by having to pay an extra price for commodities, be just as certainly taxed as if the larger part of the tax were in the first instance levied from them. The same result would, of course, take place, if, as a consequence of imposing the tax upon the employer, he, in order to place

himself on an equality with his foreign competitors, reduced wages.

We therefore arrive at the conclusion that no course can be suggested which will prevent the tax, either wholly or in large part, being paid by the labourers; and therefore the effect of the scheme will be the same as if the labourers were directly taxed with the object of forming an insurance and annuity fund for their benefit. Amongst many objections that may be urged to such a plan of compulsory thrift, it may be mentioned that it would be impossible for the Government to obtain money for an insurance fund either from those who are unemployed or from those who only earn wages just sufficient to provide themselves with the necessaries of life. The certain result of the Government making such an attempt would be to arouse a bitter feeling of resentment. Many forms of providence, such as insurance and making provision for old age and sickness, which are now rapidly spreading, would become unpopular; and we believe it would be found that not only would a Government hopelessly fail to introduce a system of compulsory thrift, but that the reaction that would result from the attempt would lead to there being far less thrift amongst the labouring classes than if it had never been sought to force it upon the people.

Although a Government may by unwise interference materially retard social and economic movements which are calculated greatly to improve the condition of the people, yet we think that a Government may exert a very beneficial influence in making available various agencies that will render the practice of providence more easy. Unmixed good has, for instance, resulted from the introduction of savings banks, which are now so rapidly spreading in our own and other countries; and it may be confidently anticipated that the people are more likely to make a prudent provision for the future if they feel that they can enjoy the security of the State, and that years of thrift will not be lost to them by intrusting their savings to insolvent societies. It is, however, of the first importance that any scheme which is supported by the State should be conducted on sound commercial principles, and should be entirely self-supporting. Thus the savings banks

which are administered through the Post-office, far from throwing any charge upon the general taxpayers of the country, yield a profit which is sufficient to secure the State against any risk of loss. If this principle were once departed from, nothing but mischief would result. If, for example, in order to promote thrift, the State allowed a higher rate of interest on savings bank deposits than it could afford to pay, the general community would be taxed for the benefit of a special class, and rival political parties prompted by a desire to gain popularity might, having once departed from the path of sound finance, bid against each other by offering a still higher rate of interest, and thus an increasing burden would be thrown upon the community.

In thus directing attention to the mischief which is likely to result from bringing into operation various schemes of State Socialism, we think it ought not to be concluded that an institution must necessarily be condemned because it may have associated with it some of the characteristics of socialism. As an example it may be mentioned that our poor law system is undoubtedly based upon socialism, because it confers upon every destitute person a legal right to be maintained at the public expense. It would not, however, be safe to conclude that the poor law ought to be abolished because of the socialism which attaches to the system. Such a question ought to be determined by a careful balancing of advantages and disadvantages; and we believe that when this is done the conclusion will be that the abolition of the poor law, from the stimulus which would be given to all the evils associated with indiscriminate charity, would produce consequences which would be far more serious than any mischief which results from a poor law system when carefully and properly administered. Experience, however, has abundantly shown that a Government, in entering so far upon the path of socialism as to guarantee maintenance to all destitute applicants, incurs a responsibility so grave that if it is not safeguarded with the utmost caution it may bring the most serious dangers upon the community. For instance, before the introduction of the new poor law in 1834, pauperism was so much encouraged by the carelessness and laxity of administration which had previously



prevailed, that English industry seemed likely to be permanently crippled by the burdens imposed upon it. If great watchfulness is not exercised in checking out-door relief, similar evils may again occur; poverty and suffering naturally evoke so much sympathy that a demand for a more liberal administration of poor relief may easily be created.

Proposals are also frequently brought forward to widen the application of the principle involved in poor law relief. Thus there are many who urge that as some of the poor find it difficult to pay for the education of their children, free education should be given at the public expense to all who choose to avail themselves of it. Amongst the pleas that are urged in favour of this proposal, it is said that as the money which free education would require would be contributed by the taxpayers and ratepayers of the country, parents would still pay for the education of their children, although in an indirect way. Precisely the same argument would justify such an extension of the present poor law system as would cause maintenance at the public expense not to be confined as it now is to the destitute; the right of enjoying it might also be conferred upon all who chose to avail themselves of it. It is also sometimes argued that a system of compulsory education has been introduced because it is in the interest of the State that the community should be properly educated, and that therefore, as the arrangement is carried out in the interests of the State, it is only fair that the State should bear the expense. But if this principle is accepted the responsibilities of the State might be indefinitely increased. It is to the national advantage that the people should be well fed, well clothed and well housed; therefore it might be proposed that the feeding, clothing and housing of the people should be undertaken by the State. It is, moreover, to be remarked that the chief justification for the interference between parent and child, involved in compulsory education, is to be sought in the fact that parents who incur the responsibility of bringing children into the world ought to provide them with education, and that if this duty is neglected the State interposes as the protector of the child. It no doubt may be said that a very large part of the expense of popular education is now defrayed by grants obtained either from imperial or local taxation, and



that as consequently so great an advance has been made towards free education, no harm could result from its complete introduction. In our opinion, however, great care ought to be taken to preserve some recognition of the individual responsibility which every parent owes to his children in reference to education, and instead of entirely sweeping away this responsibility, the people should be rather encouraged to regard the present system only as a temporary arrangement, and that as they advance, the portion of the charge for the education of their children which can now be shifted upon others should, instead of being increased, be gradually diminished.

In bringing these remarks to a conclusion, we cannot help thinking that for some years to come many of the schemes which have been here considered may in various forms engage a large share of public attention. In endeavouring to explain some of the consequences which their adoption would involve, we should greatly regret to do any injustice to the motives of those by whom they are advocated. Mischievous as we believe many of these schemes would prove to be, the great majority of those by whom they are advocated are undoubtedly prompted by no other desire than to promote social, moral and material advancement. The conclusion, above all others, which we desire to enforce, is that any scheme, however well intentioned it may be, will indefinitely increase every evil it seeks to alleviate, if it lessens individual responsibility by encouraging the people to rely less upon themselves and more upon the State.